LON
RES

RESIDENTIAL. REVIEW.
WINTER 2018.

BETTER.DATA.CLEARLY.

OPENING THOUGHTS...

LonRes subscribers will have noticed that we have added a Bitcoin rate convertor to our calculator and displayed sales prices, in addition to the Euro and Dollar rates.

I have also seen some properties advertised for sale recently whereby they will accept only Bitcoin as payment. We incorporated this to show the comparative value against UK sterling currency. While we have done this light-heartedly, I believe that there are some serious issues that have yet to be addressed.

Bitcoin market price (USD) – last 12 months

Source: blockchain.info

The cryptocurrency craze/bubble could one day be a mainstream transactional currency but in the context of the prime London property market it remains a marketing gimmick. The massive daily valuation swings would make any transaction nothing more than a wild bet. The chart above is an example of how much Bitcoin depreciated last month. The anti-money laundering implications would no doubt be a challenge. I doubt there are even a handful of agents, vendors or purchasers that have the foggiest idea of how to manage a cryptocurrency deal. However, never say never.

Much of the trade press spend a lot of time on "proptech", a term coined to refer to all aspects of innovation in the property industry. Hardly a day passes without a new innovation that is guaranteed to make the lot of the estate agent easier or that which will revolutionise the industry. Most of these fail when one sees that the new idea is neither new nor revolutionary. It does not help us when the innovator has little experience in the market they are attempting to penetrate and sometimes it seeks to create a solution to a problem that never existed in the first place.

I see a growing recognition that the public are looking for an experienced and professional estate agent whose knowledge of the London market's nuances and complexities are more useful than any algorithm, yet staying on top of the latest technological developments in his or her market.

It would be difficult not to mention stamp duty land tax (SDLT) again as this, in my opinion, has had the single most damaging effect on the prime London market, in terms of sales and lettings. Transactions are 27% down compared with volumes five years ago, with volumes sold in 2017 similar to 2016 levels. Lettings are proving more resilient, up 7% year-on-year. But the rental market will be distorted by the fiscal drag of stamp duty. There are enough transactions happening to show that a £20,000 pw let is now not uncommon. Even the ultra high net worth individual will baulk at a cost that may not be recoverable in a flat market. That £2.5m home is still going to cost you a whopping £213,750 in dead money. From £25,000 in 1997, this taxation has changed six times under Labour, and, not to be outdone, three times by the Conservatives, with by far the most damaging change in December 2014.

The *Financial Times* has written some interesting articles recently on the new build market. One view is that building 300,000 homes a year for the next five years is unlikely to make any difference in London. This is because London isn't full, it's just that much of the new housing stock is empty because it's unaffordable and therefore, expensive, even to the overseas investor who, in a flat market is unlikely to see a profitable return, especially with the up-front stamp duty charges and squeezed annual yields. The statistics quoted also make for interesting reading: taking the supply and demand required, then UK supply would need to rise by 1% per annum, or 280,000 units. Unfortunately, 300,000 completions have not been achieved in the last 40 years and the last politician to fulfil a pledge was Harold Macmillan, when 400,000 homes were built in 1967. Government policy hoped that the private sector would fill the gap left by the retreat of local government, but they forgot that if there is no incentive to build then they won't get built.

Lastly, we are seeing an increasing number of country agents joining the LonRes network. Links between London and the country have never been stronger, and you can read more about this in our latest report, *Prime Moves*, a joint collaboration with Hamptons International.

WILLIAM CARRINGTON
CHAIRMAN
wcarrington@lonres.com

ANTHONY PAYNE
MANAGING DIRECTOR
anthony@lonres.com

MAPPING. PRIME. LONDON.

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Properties reduced in price before let agreed and rental value

Key

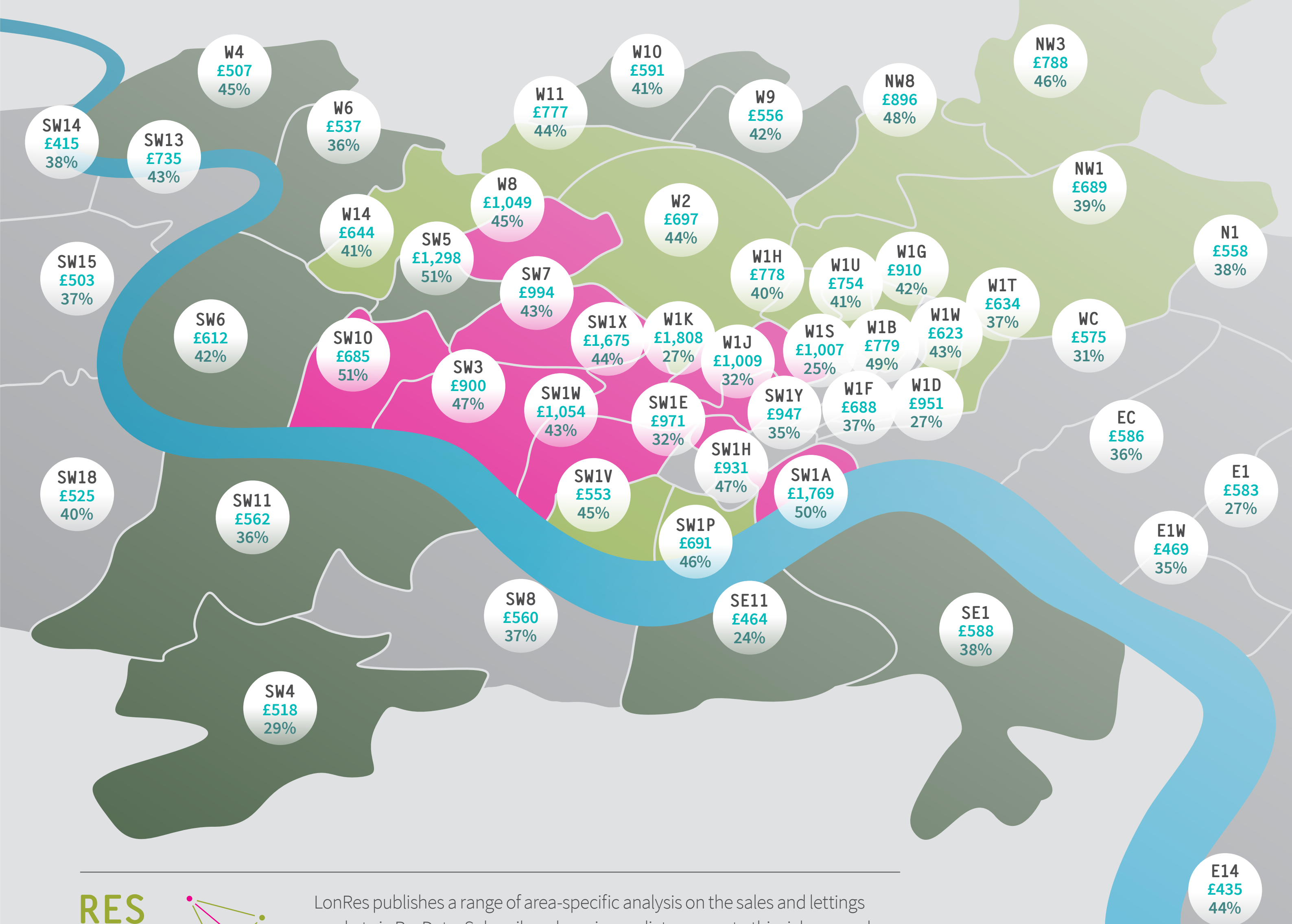
£ Average achieved rental value £per week – 2017

% Percent of properties reduced in price before let agreed – 2017

PCL

Prime London

Prime Fringe



RES DATA

LonRes publishes a range of area-specific analysis on the sales and lettings market via ResData. Subscribers have immediate access to this rich research facility and can build and download reports directly from the LonRes system.

Source: LonRes

MARCUS DIXON
HEAD OF RESEARCH

This issue is produced in January 2018 using data to 31 December 2017

FOREWORD

Calling the bottom of the market can be a risky move, particularly with the uncertainty over Brexit still looming large. But our survey seems to suggest that few are now expecting more significant price falls across central London this year. The market is still challenging. 2017 saw little change in activity, with marginal falls in sales volumes and prices compared with 2016.

A slowdown in the wider London market is, along with additional home stamp duty hikes, weighing more heavily on the market below £2 million, which had, until recently, seen a less significant fall in activity and prices. The market over £2 million has fared a little better, however we are hoping for more activity this year than last.

For lettings, a combination of fewer homes reaching the market and increased demand, particularly at the upper end, meant achieved rents rose by 3% across prime central London in the fourth quarter compared with the same period a year earlier. The market remains sensitive to levels of new supply, but has continued to benefit from would-be owner-occupiers deciding to rent instead.

SALES. MARKET. OVERVIEW.

A combination of increased costs and market conditions are impacting prime areas of London meaning homeowners are moving less often. This is having an impact on many aspects of the market. Agents are reporting an increase in the number of viewings on a property and the time spent on the market before finding a buyer has increased.

2017 ended with transaction volumes across our three prime catchments down marginally on 2016. The number of properties sold in 2017 fell by 3.6% across our three prime areas. The reduction in activity was more pronounced for homes under £2 million, reflecting in part the pressures placed on small-scale investment and second home purchasers by increased costs and changes to taxation. The number of properties sold at under £2 million fell 6% in 2017, whereas sales at £2 million or more increased by 4% over the same period.

Prices, across our three prime areas, ended 2017 1% down year-on-year, with values achieved in the fourth quarter down 2.1% on Q4 2016. Homes sold for under £2 million recorded more significant price falls over the last 12 months. Achieved prices for homes under £2 million fell by 2.7%, compared with falls of 0.3% for homes sold at £2 million or more. In prime central London the difference was more evident. Properties sold for £2 million or higher achieved 1.3% more in the fourth quarter than the same period in 2016, homes under £2 million saw prices fall by 5.3%.

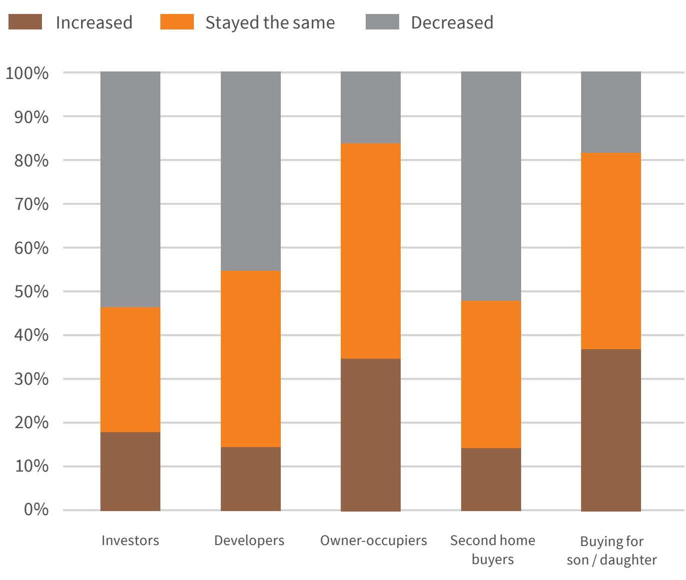
A certain lethargy still exists within the prime markets, with many sellers choosing to withdraw rather than accept a lower price. In our most recent survey, 73% of agents cited inability to achieve their required price as the main reason for properties being withdrawn. Withdrawal rates peaked in prime fringe markets in Q4 2017, with 62% of properties taken off the market due to a withdrawal rather than a sale. In prime central London and prime London withdrawal rates fell back in Q4 2017 to 54% and 57% respectively, having peaked last summer at more than 60%.

Outlook

Continued uncertainty over the Brexit process is, our agents expect, going to have the most impact on the prime housing market this year. Our survey showed 46% of agents thought Brexit uncertainty would have the most significant impact on demand, ahead of stamp duty at 30%.

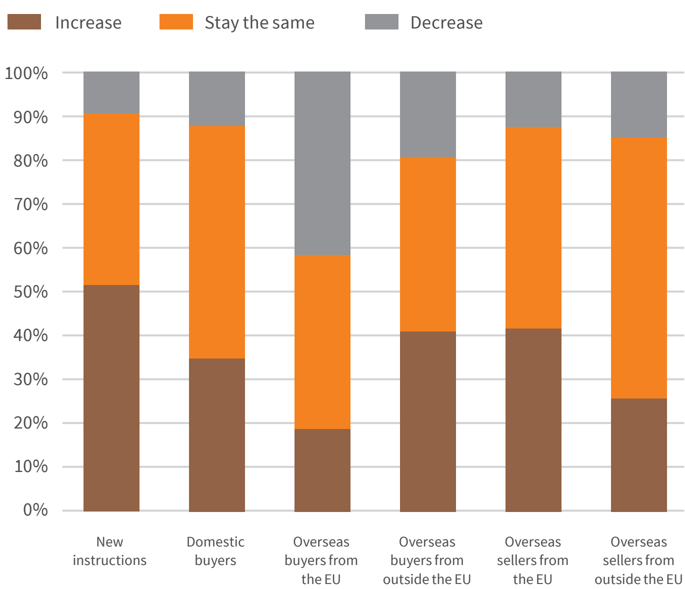
Looking ahead, agents remain positive on the outlook for transactions, with 71% of those surveyed expecting volumes sold in 2018 to equal or exceed 2017 levels. Agents do remain cautious on the outlook for prices, but our survey suggests the number who expect prices to fall significantly this year has fallen. Just 6% of agents surveyed expect prices achieved over the next 12 months to be down 5% or more on current levels, the lowest proportion since 2014, could we be nearing the bottom.

Change in demand by buyer type – last 12 months



Source: LonRes agent survey Q4 2017

Agent expectations – next 12 months



Source: LonRes agent survey Q4 2017

KEY STATISTICS IN SALES – Q4.2017

£1,258
PER SQUARE FOOT
average value achieved
(three prime areas)

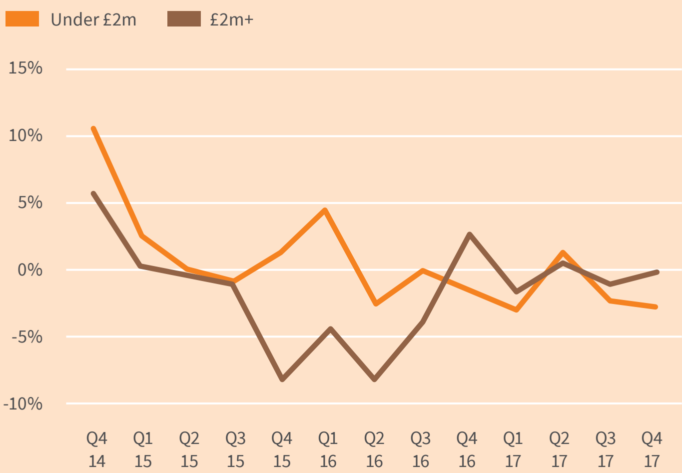
7%
increase in the number of available properties
(PCL)

£907 MILLION
total spend in Q4 2017
(PCL)

£1.8 MILLION
average sale price
(three prime areas)

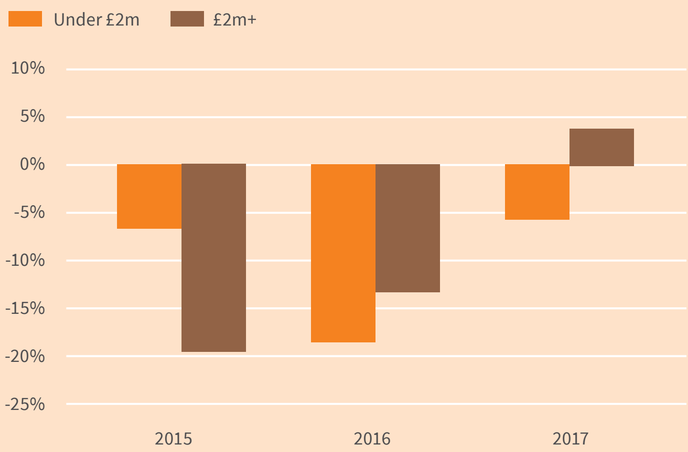
KEY MARKET TRENDS IN SALES

Annual change in achieved £ per sqft – three prime areas



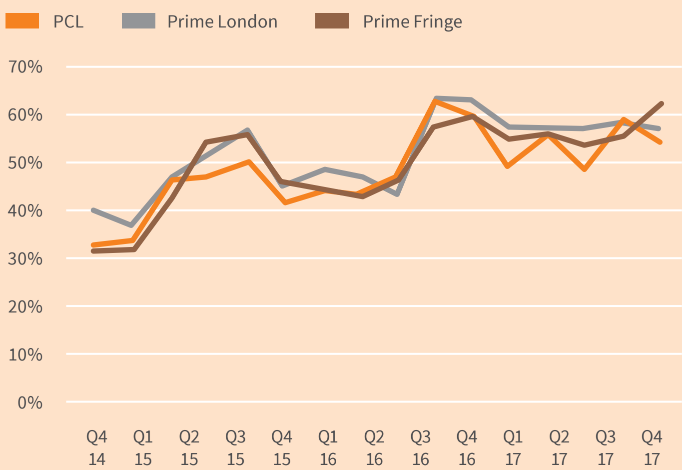
Source: LonRes

Annual change in transactions



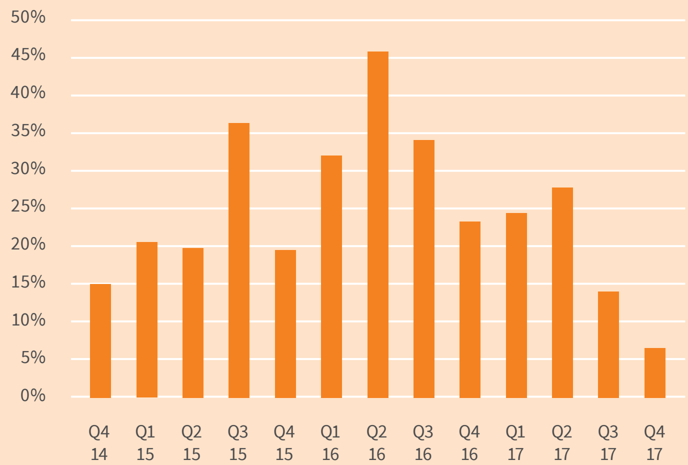
Source: LonRes

% properties withdrawn from the market



Source: LonRes

Agents expecting prices to fall by 5% or more over the following 12 months



Source: LonRes agent survey Q4 2017

Prime Central London includes properties within the following postcodes: SW1X, SW1W, SW1A, SW3, SW7, SW10, W1K, W1J, W8
Prime London includes properties within: NW1, NW3, NW8, SW1P, SW1V, W1T, W1H, W1U, W1G, W1W, W2, W11, W14,
Prime Fringe includes: SE1, SE11, SW4, SW5, SW6, SW11, W4, W6, W9, W10

LETTINGS. MARKET.OVERVIEW.

The prime lettings market improved in the latter part of 2017. Earlier in the year stock levels increased, putting pressure on rental values. But, from the summer onwards stock levelled off and an increase in new tenants supported growth in rents in the fourth quarter, particularly in higher value central postcodes.

The LonRes Lettings Index recorded a 2.5% quarterly rise in rental values in the fourth quarter, up 1.2% on Q4 2016. Prime central London saw the most significant annual increase. The Index, which had fallen over the first three quarters of 2017, increased by 6.3% in the fourth quarter, up 3% on the same period in 2016. Prime London also saw an increase, with rents up 0.8% annually and 0.7% higher than in Q3 2017. Only prime fringe saw rents fall, down 2.2% in the fourth quarter compared with the same period in 2016.

Fewer new instructions in the second half of 2017 contributed to the rise in achieved rents this quarter. Both prime central London and prime London saw fewer properties reach the market to let in the fourth quarter, down 8% and 19% respectively on Q4 2016. Prime fringe, the only one of our three areas to see rents fall, registered an 8% increase in new instructions in the fourth quarter. Less stock meant fewer properties required a reduction in asking rents, which fell in the second half of 2017. Across our three prime catchments 40% of properties let in the fourth quarter had had their asking price reduced, down from 49% in the first three months of 2017.

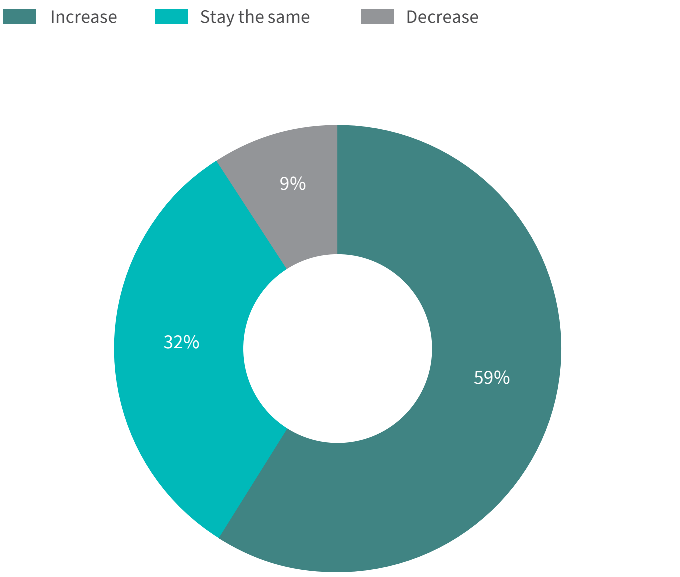
The number of properties let across our three prime areas rose again last year, up 7% on 2016. The fourth quarter did see fewer properties let than the same period in 2016, but the top-end lettings market continues to see increases inactivity. The number of homes let for £3,000 per week or more increased by 25% in the fourth quarter compared with the same period a year ago, with 2017 seeing 14% more lets at this level than 2016.

Outlook

In the latest LonRes survey, agents remained optimistic about activity within the rental market in 2018. At the year-end, 59% of those surveyed expected the number of properties let in 2018 to be higher than 2017, with just 9% predicting fewer lets. Respondents also expected an increase in new instructions, 63% predicting more stock would reach the market this year than last, and just 7% forecasting new instructions will fall in 2018.

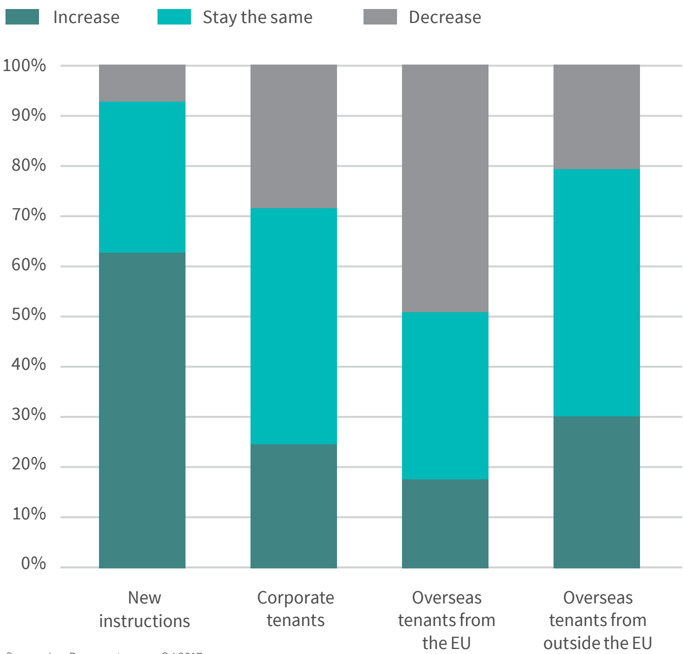
Looking ahead, agents remain cautiously optimistic about prospects for rental growth over the next 12 months too. 61% of respondents expect rents to end the year the same or higher than in Q4 2017. Indeed, just 5% of respondents expect rents will fall by more than 5% over the next 12 months.

Agent expectations on volume of new lets – next 12 months



Source: LonRes agent survey Q4 2017

Expectations on activity and demand – next 12 months



Source: LonRes agent survey Q4 2017

KEY STATISTICS IN LETTINGS – Q4.2017

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£51
PER SQUARE FOOT
annual rental value (PCL)

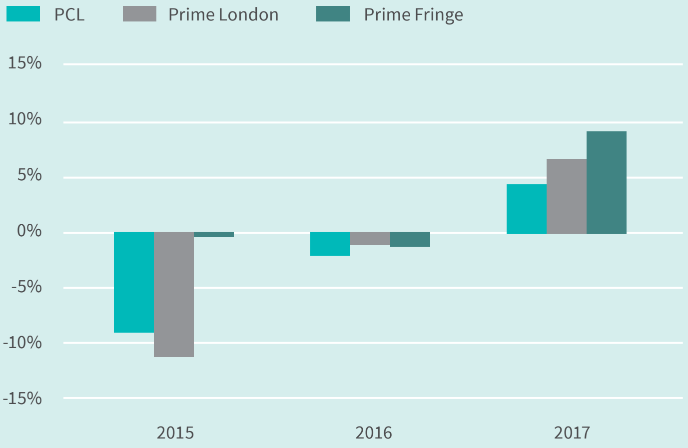
11%
of properties let for £2,000 pw or more (PCL)

2.93%
average gross rental yield Q4 2017 (PCL)

£765
PER WEEK
average rental value achieved (three prime areas)

KEY MARKET TRENDS IN LETTINGS

Annual change in properties let



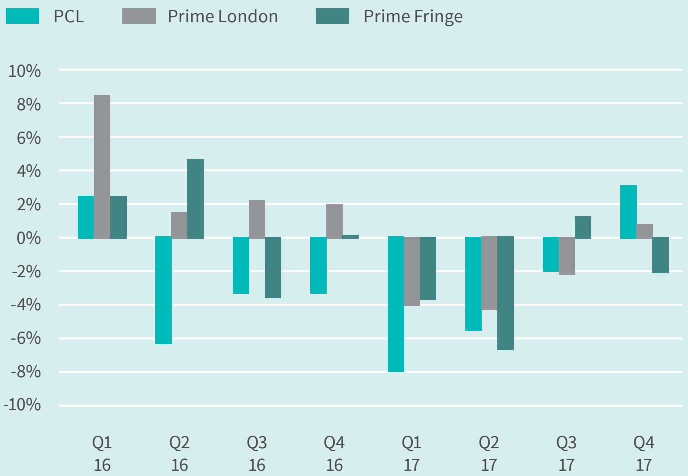
Source: LonRes

Q4 2017 results from the LonRes Prime London Lettings Index

All Property	Prime Central London	Prime London	Prime Fringe
Quarterly change in achieved rents	6.3%	0.7%	-1.4%
Annual change in achieved rents	3.0%	0.8%	-2.2%

Source: LonRes Prime London Lettings Index

Annual change – LonRes Prime London Lettings Index



Source: LonRes Prime London Lettings Index

% of properties which required a reduction in asking price

Source: LonRes

Prime Central London includes properties within the following postcodes: SW1X, SW1W, SW1A, SW3, SW7, SW10, W1K, W1J, W8

Prime London includes properties within: NW1, NW3, NW8, SW1P, SW1V, W1T, W1H, W1U, W1G, W1W, W2, W11, W14,

Prime Fringe includes: SE1, SE11, SW4, SW5, SW6, SW11, W4, W6, W9, W10

NATIONAL. MARKET.OVERVIEW.

£9.5BN
stamp duty receipts in 2017 – a record high (HMRC)

£226,071
average UK house price – Nov 2017 (Land Registry)

88%
of surveyors thought first-time buyer SDLT changes would have no impact on activity (RICS)

25%
of London households own their property outright (English Housing Survey)

There is a misconception that the fortunes of prime central London homes are detached from the wider mainstream market.

Admittedly, the changes to stamp duty in December 2014 penalised the London market most heavily. However, the rapid rise in house prices in prime London, as the market recovered following the financial crisis in 2007/08, soon filtered out into other areas of London. But properties outside the capital's commuter belt took longer to benefit.

If the market follows a similar trajectory to previous cycles, this would suggest that some of these markets have further to rise. Forecasters seem to think so, with the Midlands and North of England expected to see the highest growth this year. Most are forecasting an increase in achieved rents nationally of between 1% and 2.5% by the year end. London house prices are expected to fall by around 1.5% this year, with central London ending the year at a similar level to 2017.

Lending

According to the Bank of England the number of loans issued for remortgage in 2017 rose 7% on 2016 and was at its highest since 2008, with home owners responding to rate rises by locking in fixed rate loans. The number of loans approved for house purchase fell in 2017, down 7% in the fourth quarter compared with Q4 2016 and 2% lower year-on-year.

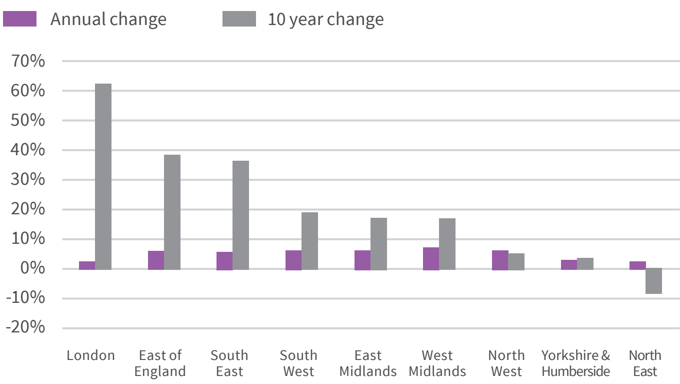
London slows

The latest transaction figures from the Land Registry show a slowdown in activity across London. The number of homes sold in August and September 2017 were down 15% on the same two months in 2016.

The latest house price figures also suggest the London market is slowing. Prices fell in November compared with the previous month, down 0.9%, with annual growth of 2.3%. This compares to growth of 5.1% nationally. November was the twelfth consecutive month when annual growth in London lagged behind the UK average. That said, this follows a prolonged period when London topped the growth charts. Indeed average house prices in London have risen 62% in the last 10 years, whereas in the North East prices are still 8% lower – even before inflation is taken into account.

But a slowing of price growth in London has not, it seems, taken the sheen from the London property market. According to the Association of Foreign Investors in Real Estate, London has taken New York's crown on the list of top global cities. The annual survey, conducted in Q4 2017, which asks the opinion of real estate investors globally, also found Brexit is less of a concern than in last year's survey.

Annual and 10 year change in achieved prices



Source: Land Registry/ ONS

Consensus forecasts for 2018

Source: LonRes using published agent forecasts

THE.COUNTRY. MARKET.

Despite the recent slowdown in prices, first in prime postcodes and now in other London neighbourhoods, price growth in the capital has significantly outperformed the rest of the country over the last 10 years. This has created some significant concerns over affordability for those looking to move into or trade up in London, but has also provided Londoners with the opportunity to realise their gains and move.

To examine London moves in more detail, LonRes has partnered with Hamptons International to analyse movements both in and out of the capital.

Moving within London

The majority of London residents who move stay in the capital. In 2017 58% of those selling up in London bought another property in the city. But, the proportion of movers deciding to leave has increased. The proportion of sellers buying another property in London peaked in 2013, when more than two-thirds of sellers (67%) stayed within the capital. This was a period when price growth in London was significantly exceeding the majority of locations elsewhere in the country and sellers were nervous of missing out on future gains in a rapidly rising market, and staying put.

Vendors selling up in prime areas of London were most likely to stay in the city. In 2017, 63% of those selling in prime areas stayed in London, with 78% buying another property in a prime area.

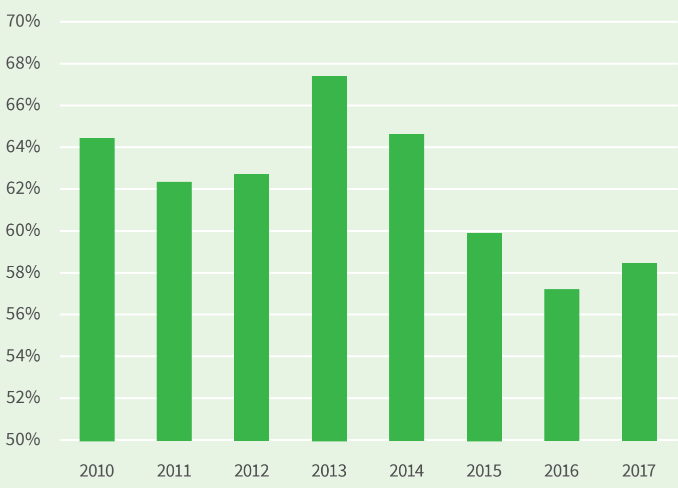
Leaving London

Those who do decide to leave London often follow well-trodden routes out of the city. London leavers heading for the South East of England were most likely to be selling a home in South West London (SW postcode), with 67% of leavers from SW postcodes purchasing a property in the South East of England. Similarly, East Londoners favoured the East of England, with over half (52%) of those selling up in an E postcode and leaving the city buying in this part of the country. This compares to just 23% who moved to the South East. West Londoners moved the furthest overall, with those leaving London travelling an average of 55 miles to their new purchase. South West Londoners preferred to stay closer to London, moving an average of 34 miles.

Many of those leaving the city were not cutting their ties with the capital. Indeed, rather than escaping to the country, the majority of sellers leaving London bought in an urban or suburban location. Many of these locations being within commuter distance of London. Just over half of sellers (51%) leaving prime areas of London bought in a town or suburb outside London. 11% chose to relocate to another city, with only around a third of sellers choosing to buy in the country.

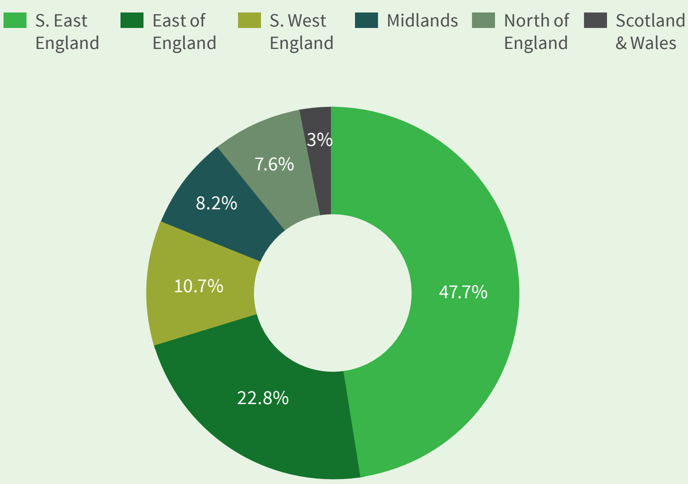
For more information please download our *Prime Moves* report, produced in partnership with Hamptons International at **www.lonres.com/latest**.

% of London sellers staying in the capital



Source: LonRes/ Hamptons International

Destination of prime London leavers - 2017



Source: LonRes/ Hamptons International

NEW.BUILD. UPDATE.

RES DEV

LESLIE SCHROEDER
Senior Research Analyst
Carter Jonas

The last five years have seen quite a change in the fortunes of London's new build market.

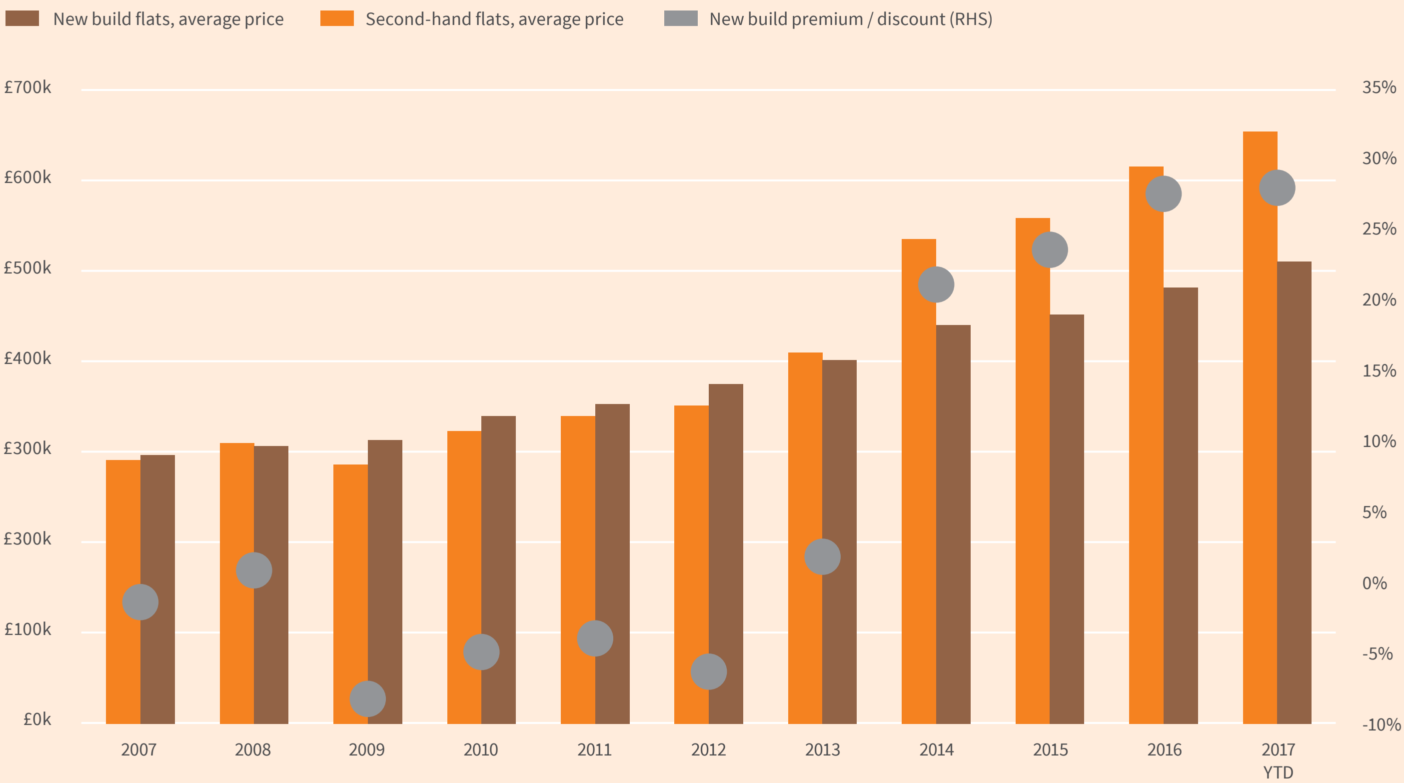
Using Molior data, our research shows that the number of residential units under construction nearly tripled over the last five years – from 23,000 at the end of 2011 to just under 65,000 in Q3 2017. The number of new build homes sold has increased too. Land Registry report that since 2007, new build sales rose from an average of 8,900 per annum to almost 17,000 in 2016, an increase of 88% over a 10 year period. This in sharp contrast to overall transactions (new and second-hand combined) which have nearly halved over the same period.

New build prices have been rising too. Between 2007–2013 the average new build flat sold for £333,000 representing a new build discount of 3%, on the £343,000 paid for a second-hand flat over the same period. However in 2014 the fortunes of the new build market began to change and by 2017 new build flats sold for an average of £657,000, a 28% premium above the average sale price of second-hand flats.

And should you think that 2017 was some sort of anomaly, you would be wrong. Since 2014 new build flats in London have sold for an average 25% premium every year. So while the average sale price of a new build flat in the capital has increased 125% since 2007, in comparison a second-hand flat has increased by 71% over the same period.

So what happened in the years between 2013 and 2014? The only obvious explanation is Help to Buy. The scheme which began in late 2013 and runs until 2021 has, between Q2 2013 – Q2 2017, generated 8,800 Help to Buy purchases in London equating to an equity loan of over £972 million.

Average prices and premiums – London flats



Sources: ONS, DCLG, Land Registry, Molior, Carter Jonas Research

COMPLIANCE. MATTERS.

GDPR – Four letters with huge meaning

MICHAEL S DAY
Managing Director
Integra Property
Services

The General Data Protection Regulations (GDPR) becomes law on 25 May 2018 and will tighten responsibilities on all businesses in regards to their management and use of the data they hold. In an industry where contacts are everything, it is vital that businesses know what the policy is going to mean for them and importantly ensure that they are fully compliant when the legislation takes effect. With this in mind, here is a short guide to the essentials everyone should be looking out for.

Businesses will hold information on both current and historic clients across a range of electronic devices including PCs, mobile phones and CRM systems. And then there are the paper records and address books which may be archived, but still in existence.

One of the key requirements under GDPR is knowing what data a company has and where it is held. Under the legislation consumers have the right to access or even delete their records, which means that carrying out an audit of existing data is a necessary first step on the road to compliance. In addition, businesses will need to put in place processes for dealing with consumer requests, as well as making sure that existing privacy policies are up-to-date.

One of the guiding principles of GDPR is that data should only be held for the purpose it was provided for and for no greater a length of time than necessary to fulfil that purpose.

Other rulings central to compliance include the principle of opting in. Under GDPR consumers will be asked to opt in when providing their data, which means that businesses will no longer be able to rely on customers choosing to opt out.

There are of course many existing precedents for holding data, such as those surrounding anti-money laundering compliance, which businesses will be familiar with and able to draw upon. The 'legitimate interest' provision in the regulation will apply in many instances, enabling professionals to retain and use data lawfully. However, the ability to gain express client consent will be non-negotiable.

The new rules raise the requirements for security of data. While reputable professionals will already meet these, there will be an obligation to report any breaches of data with significant potential fines for non-compliance.

There will be various knock on implications such as the passing of personal data to third parties. It would be prudent to talk to suppliers, ensure their processes are robust, and at the same time build required standards into service level agreements and staff contracts of employment or terms of business.

While there is currently a lot of noise surrounding GDPR the reality is most businesses will be able to cope with the changes internally. However, GDPR cannot be ignored and leaving plans to the last minute could result in an inability to legally use data, leaving businesses open to falling short of requirements.

RES COUNTRY

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RURAL.
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LONRES.COM/RESCOUNTRY

FOR MORE INFORMATION, PLEASE CONTACT:

Chris Welch
E: chris.welch@lonres.com
T: 020 7924 6622

Will Parsons
E: will.parsons@lonres.com
T: 020 7924 6622

GET. IN. TOUCH.

WILLIAM CARRINGTON
CHAIRMAN
wcarrington@lonres.com

ANTHONY PAYNE
MANAGING DIRECTOR
anthony@lonres.com

JAMES GOLFAR
DIRECTOR
james.golfar@lonres.com

MARCUS DIXON
HEAD OF RESEARCH
marcus.dixon@lonres.com

ALISON BLEASE
DIRECTOR OF PR
alison.blease@lonres.com

EMMA HERRIMAN
DIRECTOR OF MARKETING
emma.herriman@lonres.com

CHRIS WELCH
SALES EXECUTIVE
chris.welch@lonres.com

WILL PARSONS
SALES EXECUTIVE
will.parsons@lonres.com

LON RES

PROPERTY.
DATA.
NETWORK.

LONRES.COM
OFFICE@LONRES.COM
020 7924 6622

/LONRES
/LONRESCOMLTD
/COMPANY/LONRES